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S E C R E T SECTION 01 OF 05 TOKYO 001373

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SUBJECT: TOKYO SCENESETTER FOR UNDER SECRETARY OF DEFENSE
FLOURNOY

Classified By: CDA James P Zumwalt for reasons 1.4(b) and (d)

11. (S) Begin text of Scen setter:

Ms. Under Secretary,

The U.S.-Japan Alliance remains strong and Japan is a close friend and partner. In spite of this, our relationship will be stressed on several fronts over the next year as Japan wrestles with daunting political and economic challenges. Two developments dominate the domestic agenda:

-- First, the political consensus that has sustained over fifty years of Liberal Democratic Party (LDP) one-party dominance is crumbling and the opposition Democratic Party of Japan -- which has ambiguous and potentially problematic security policies -- has a very good chance of taking power in the next four months. But regardless of who wins, the next government is unlikely to command enough Diet seats to effectively govern, leading to a year or more of political gridlock.

-- Second, Japan's GDP dropped by an annualized rate of 14.2 percent in the last quarter, the largest fall in 60 years and more than double the drop in the U.S. GDP. The downturn, coupled with a gross debt-to-GDP ratio approaching 200 percent and a shrinking population, is fueling tremendous pressure to cut spending drastically in all areas -- defense included.

Senior Japanese government officials will look to you to reaffirm President Obama's message that Japan is a "cornerstone" of our national security and foreign policy. Worries that we would pass over or ignore Japan and tilt toward the PRC have been largely laid to rest by Secretary Clinton's visit and President Obama's invitation to Prime Minister Aso to be the first foreign leader to visit the White House. Nonetheless, unease remains. There is intense interest in the outcome and impact of our policy reviews on North Korea, Burma, Iran, and Afghanistan/Pakistan. President Obama's proposals on eliminating nuclear weapons and assurances we will maintain a large enough nuclear arsenal to guarantee deterrence have drawn wide approval. Tokyo has

publicly hailed the President's Prague speech. Privately, senior officials have expressed appreciation for our engagement in crafting the Nuclear Posture Review (NPR), but, at the same time, voiced concerns about the speed and implications of a reduction in the size of our nuclear weapons stockpile.

Building on Prime Minister Koizumi's and Prime Minister Abe's legacies, Prime Minister Aso has made progress in carving out a larger international role for Japan. Tokyo is playing a leading role in supporting stability in Pakistan and Afghanistan, most recently through hosting the Pakistan donors conference in April. Moreover, Japan is sending four civilian aid experts to the Lithuanian PRT in Chaghcharan, Ghor province. In June, Japan deployed two P-3C patrol aircraft to Djibouti to join the two JMSDF destroyers already in the region conducting anti-piracy operations. Air Self-Defense Force and Ground Self Defense Force staff are also supporting Japan's anti-piracy mission, as are Japan Coast Guard personnel. Further political support for anti-piracy efforts are on the horizon as the Diet is on track to pass legislation that will broaden the SDF's ability to work with coalition forces and provide security to third country shipping vessels.

On the bilateral security front, the Aso administration has moved aggressively to implement the 2006 Alliance Transformation Roadmap, budgeting over one billion dollars this year for U.S. base realignment and securing Diet ratification for the Guam International Agreement, signed by

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Secretary Clinton in February. Japan is also compiling its National Defense Program Guidelines (NDPG) as we engage in our own Quadrennial Review effort. Bilateral consultations over these efforts should help Japan focus its limited defense resources on capabilities that will enhance the Alliance's effectiveness. Close and effective coordination in the lead-up to the North Korea Taepodong launch in April has validated the trend towards increased interoperability. Nevertheless, there are still political and business interests pressing the government to invest in expensive and duplicative satellites and offensive weapons.

A defeat of the LDP in the upcoming Diet elections will introduce an element of uncertainty into our Alliance relations with Japan. The opposition Democratic Party of Japan (DPJ) has voiced strong support for the Alliance per se, but many leading DPJ politicians oppose funding the move to Guam, the Futenma Replacement Facility (FRF) plan, and Japan's role in Indian Ocean refueling and anti-piracy operations. It is unclear at this point how much of their policy pronouncements are campaign rhetoric and how much are serious declarations of policy shifts under a DPJ government.

I have attached a list of issues and background material for your reference. We look forward to seeing you in Tokyo.

James Zumwalt, CDA

12. (S) Begin text of Checklist:

DOMESTIC POLITICS

-- LDP Hanging On; DPJ Changes the Guard: Prime Minister Aso's hold on government is increasingly tenuous. After a brief uptick, his public support rate has resumed a downward trend. As earlier in the year, bad poll numbers are threatening to trigger moves to unseat him from within his own party. A corruption scandal involving DPJ leader Ichiro Ozawa in March gave a boost to Aso and allowed him to demonstrate leadership and make progress on many of his key legislative goals. However, Ozawa's subsequent resignation and replacement by the "clean" Yukio Hatoyama, coupled with

deep economic difficulties and profound public distrust of politicians, depressed support for Aso and the LDP and have given the DPJ a boost. Aso's focus for the rest of the Diet session will be to show he can turn Japan's ailing economy around.

-- DPJ: U.S.-Japan Alliance Supporter or Critic?: Significant ideological differences within the DPJ make it difficult to predict the impact on bilateral relations of a DPJ government. The party's "big tent" includes old-line socialists on one side and pragmatic defense intellectuals who would be comfortable in the LDP on the other. Your meeting with DPJ leaders will be an opportunity to elicit their views and to re-enforce with the DPJ importance of implementing the transformation and realignment agenda.

-- Political Realignment in the Offing?: A general election must be held by this fall when the Diet's set four year term ends. It is probable that neither the LDP nor the DPJ will receive sufficient votes to assemble a stable coalition government. Over 40 to 50 percent of Japan's electorate remains undecided over which party to support. The election result will probably hinge on public sentiment in the last days of a campaign. That sentiment is now anti-LDP and anti-Aso, but could be swayed easily by a scandal or misstep involving DPJ leaders. Many political analysts predict that there could be a political realignment after the election, as both parties reach out to allies in the opposition to build a stable majority in the Diet.

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ECONOMIC DOWNTURN

-- Economy Reacts to Global Crisis: Japan's current economic contraction is due primarily to the collapse of global demand. The medium-term economic outlook is gloomy, with rising unemployment, declining business confidence, and weak demand for Japanese exports. Marking the steepest drop since the end of WWII, the country's real GDP fell 14.2 percent on an annualized basis from the previous quarter for the January-March 2009 period due to falling business investment, private consumption, housing investment, and exports. The crisis has reinforced the need for Japan to shift more decisively toward domestic demand-led growth, but economic structural reform efforts have stalled under Prime Ministers Aso, Fukuda, and Abe.

-- Priority One - The Economy: PM Aso's top priority is implementing economic and fiscal measures to strengthen the domestic economy during the current global economic downturn in advance of the coming election. The goal is to return the economy to a sustainable growth path by fiscal year 2010. Aso explicitly described his fourth and latest stimulus plan, announced on April 10, as Japan's response to the G-20 Leaders' call for "concerted fiscal expansion." The DPJ agrees with the need for fiscal stimulus but is contesting individual elements of the package, which could delay passage of the bill until late June and the ultimate impact of the stimulus into the fall.

SECURITY ISSUES

-- Support for the Alliance: Many Japanese express concern about the state of our bilateral relationship. Uncertainty about our China policy and lingering disappointment with our decision to delist North Korea as a state sponsor of terrorism are often cited as factors leading to mistrust, but much of the unease is psychological rather than policy-related. While pacifism remains deeply ingrained in Japan, there is a strong consensus among the public and opinion makers -- due to the DPRK threat and the PRC's

growing power projection capabilities -- that the U.S.-Japan Alliance is vital to Japan's national security. Our bilateral security ties remain strong and were reaffirmed by Secretary Gates in Singapore and Secretary Clinton in February when she signed the Guam International Agreement on the realignment of U.S. Forces.

-- Defense Spending: We need to continue to encourage Japan to take on a greater role in its own defense. Japan is now compiling its National Defense Program Guidelines (NDPG) and 5-year Mid-Term Defense Plan. These policy reviews offer us a chance to influence the future shape of Japan's defense posture. In addition to encouraging greater defense spending, enhanced information security, and broader legal authority to the Self-Defense Forces, we are encouraging Japan to focus on deepening operational capabilities in ways that will enhance our Alliance's deterrent value, including long-range lift, ballistic missile defense (BMD), sustainment, and maritime operations.

-- Information Security: The U.S. and Japan established a Bilateral Information Security Task Force (BISTF) in 2007 in the wake of the unauthorized disclosure of Aegis operational data by a Japanese MSDF member. Since that time, Japan has made progress towards strengthening information security procedures within its ministries, but much work needs to be done on cyber security and establishing a legal framework to allow for effective background investigations and security

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clearances. The State Department co-chairs the BISTF with DOD and ODNI at the DAS-level.

FOREIGN RELATIONS

-- Afghanistan/Pakistan: In April, Japan hosted the ministerial-level Pakistan Donors Conference, which garnered over five billion dollars in pledges. Japan matched our contribution, pledging one billion dollars in new funds over two years. In Afghanistan, Japan is working more closely with the PRTs, assigning a full-time liaison officer to NATO's office in Kabul and dispatching in May the first of what will eventually be four officials from the Ministry of Foreign Affairs (MOFA) to the Lithuanian PRT in Chaghcharan. With \$1.4 billion pledged since 2002, Japan is the third highest bilateral contributor (behind the United States and the United Kingdom) to Afghanistan. An additional \$300 million in the supplemental budget will support the 2009 Afghan elections and other security programs, including payment of salaries for the entire Afghan police force for six months and contributions to the NATO helicopter trust fund.

-- Iraq: Japan is the second largest contributor to Iraqi reconstruction and is moving to establish an office in Erbil. In January the two countries signed a "Comprehensive Partnership" agreement, and Japan can be counted on to continue to support Iraqi reconstruction. Iraqi Foreign Minister Zebari visited Tokyo June 17 and emphasized Baghdad's intentions to take bilateral ties to the "next level."

-- Iran: Japan maintains what they characterize as a "normal" relationship with Iran and sees itself as a possible intermediary between Iran and the United States. Shortly after Iranian Foreign Minister Mottaki visited Tokyo for the Pakistan Donors Conference, Foreign Minister Hirofumi Nakasone traveled to Tehran, despite our urging to the contrary after President Ahmadinejad's racist speech in Geneva. In meetings with Mottaki and President Ahmadinejad, Nakasone pressed hard for a favorable response to President Obama's overtures, and also sought the release of Roxana Saberi. He urged Iran to play a more "responsible" role, but did not raise Ahmadinejad's Geneva remarks or Iran's support

for Hizbollah and Hamas. Japan and Iran have announced their intention to engage in several joint projects pertaining to Afghanistan, including border cooperation and the training of Afghan refugees in Iran who are preparing to return home.

-- North Korea: Discussions on the situation in North Korea and the status of the Six-Party Talks continue to garner widespread press attention. Japan remains exceedingly uneasy about the DPRK, particularly in light of the most recent missile launches, nuclear test, and continued saber-rattling. Special Envoy Bosworth's and Deputy Secretary of State Steinberg's recent visits have helped reassure Japan that our policies are still in sync. As the DPRK appears to be moving toward another set of missile tests, Japan will be looking to coordinate closely on the military, diplomatic, and public messaging fronts.

-- China: Prime Minister Aso, following up on initiatives by Prime Ministers Abe and Fukuda, has been successful in defusing, for the time being at least, the sharp conflicts over history that impeded relations with China during the Koizumi years. He has successfully led the first Japan-China-Korea Trilateral Dialogue and won agreement from Beijing to re-start Japan's version of the Strategic Economic Dialogue after a long hiatus. Exchanges of high-level defense officials and port visits by naval vessels are occurring more regularly. Vice Foreign Minister Yabunaka

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will visit China during the week of June 22 for a strategic dialogue with Vice Foreign Minister Wang Guangya, with the DPRK and East China Sea expected to be key topics. While relations are improving, Japanese government officials view China as the key challenge to Japan and the U.S.-Japan Alliance. Japan acknowledges that good U.S.-China relations are in its interest, but Japan also fears that the United States will discount Japan's interests in pursuit of more robust relations with China. Japan has been sensitive to recent Chinese actions around the disputed Senkakus and has sought explicit U.S. reassurance on our commitment to aid Japan in the case of an attack on the islands.

-- South Korea: Territorial disputes over the Liancourt Rocks (Takeshima/Tokdo) remain an irritant to relations with South Korea, but both sides have expressed a desire to build a Japan-ROK relationship that is "different from the relationship up until now." Prime Minister Aso and ROK President Lee Myung-bak have struck up a particularly good personal relationship, and the pace of "shuttle diplomacy" has picked up markedly since Aso took office. President Lee will visit Japan for meetings with Prime Minister Aso on June 128. Japan will also host Assistant Secretary-level trilateral (U.S.-Japan-South Korea) defense talks in Tokyo on July 16-17. Assistant Secretary Gregson will lead the U.S. team to these talks.

ZUMWALT